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## USA TODAY: Pursuing the Network Strategy (A)

In late January 2000, Tom Curley, president and CEO of USA TODAY (USAT), the nation's most widely circulated newspaper, dressed up as a blue-haired cyber-punk for a speech to his senior advertising staff, who had gathered for a meeting in Honolulu, Hawaii. Curley had carefully chosen his appearance to garner support for his vision of a "networked" USAT that, he believed, could thrive in the rapidly changing news marketplace.

USAT's 1999 earnings were more than 33% above 1998 earnings, and 2000 was off to a robust start. Nonetheless, Curley was worried about a number of trends affecting USAT. Fewer and fewer people were relying on a daily paper for their news, and more and more were relying on television and the Internet. USAT was in its 34<sup>th</sup> consecutive month of decline in terms of single-copy sales, and other newspapers, such as *The New York Times* and *The Wall Street Journal*, were in a similar position. The Internet news market was crowding with new entrants, such as yahoo.com, cnn.com, and bloomberg.com, as well as "old" media news providers that were adding Internet sites to their offerings.

USA TODAY included both domestic and international editions of the newspaper and USA TODAY.com ("Online"). A television broadcast unit, USA TODAY Live ("LIVE"), was expected to be up and running in a few months. Curley's "network strategy" required the integration of these three different media formats, thereby leveraging USA TODAY content for distribution across multiple channels. Accomplishing this strategy would require significant changes in USA TODAY'S technology infrastructure, in its corporate culture, and in its organizational structure. With his blue hair heavy on his head, Curley rallied his staff:

The much-heralded digital revolution finally has reached our door. To meet the revolution's various challenges, we need a new organization. To get there we must not simply open a window but tear down all the walls. We may print 3 million newspapers a day, but we're no longer in the newspaper business. We're in the news information space, and we'd better learn to deliver content regardless of form or appliance. Paper for the foreseeable future will be our foundation, but before the year is out more people will access our content on any given day electronically through one tube or another. The revolution has to be understood in all our offices. It's not about a Net strategy for USA TODAY. It's about a digital conversion. There are wonderful opportunities out in the marketplace for us. We can win. First, we have to agree to fight.

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Implementing the network strategy called for integration across these three different business units and required the type of change that had been difficult for USAT in the past. The paper consisted of half a dozen independent fiefdoms—such as circulation, the newsroom, advertising, and production—that Curley often referred to as “asylums.” More recent efforts to develop other USAT businesses had fostered fragmentation. Online, for example, had existed as an extremely independent organizational unit and was fighting to be spun off from its parent. Earlier, a late 1980s effort to create a TV business under the USAT banner had been unsuccessful, costing the organization \$100 million and leaving deep scars.

By February 1999, Curley’s senior management team had become wary of significant organizational change and was conflicted over Online’s role in USAT’s future. (See **Exhibit 1** for organizational chart of USAT’s senior staff in 1998 and 1999.) For example, David Mazzarella, editor of USAT from 1994 to May 1999, had been an outspoken critic of the Online business. At the same time, Lorraine Cichowski, general manager of Online, was skeptical of efforts to integrate Online with the newspaper.

Curley realized that becoming a successful player in the new digital marketplace required that his staff accept the reality of the digital challenge. As Curley saw it:

The competition we face now isn’t anything like what we faced in the past. E-players are out to win categories, acquiring customers by the millions, ignoring all else. Online and television competitors now offer consumers access to targeted information—such as weather, sports, stocks, classified, even obituaries—on a continuing basis. Advertisers are following the consumers that flock to these new media.

But, as of February 2000, no member of his senior staff was willing to go along with Curley and his vision that USAT transform itself from a traditional newspaper business to a news company in the broadest sense. Curley discussed the reluctance of his senior staff to make the necessary adjustments:

The senior staff was polite to me but indifferent to what I was telling them about the digital challenge—that competition from the digital sector was increasing, that our customers’ behavior was changing, and that our single-copy sales were declining as a result. In part, they had only a “nickel deep” understanding of the changes that were going on in the marketplace. But they were also choosing to ignore the evidence that did exist that the news market was changing; no one was willing to acknowledge the digital challenge and what it meant for the organization.

At the same time, the senior staff was absorbed with their own responsibilities and was concerned that Online was a threat to their future. Except for Lorraine, the group feared and looked down on Online and was unable to see them as a strategic partner in the company’s future. And, it was hard to make the newsroom see the network as an opportunity, rather than a sign that USAT was abandoning them and the analog world of print.

Curley wondered how he could drive home his message to the organization. He also wondered what changes in his senior team and what degree of organizational integration would be necessary to implement the network strategy.

## **USA TODAY: The Newspaper**

USA TODAY was forged from the talent and resources of its corporate parent, Gannett Co., the largest newspaper group in the United States. In 1980, Gannett’s 85 papers in 35 states faced direct competition in just 10 markets. Between 1967 and 1990, Gannett had recorded 90 consecutive quarters

of earnings increases, had seen its stock price increase by 500% since its 1967 public offering, and had increased its dividends 13 times. In 1980, Dun and Bradstreet had rated Gannett as one of the “five best managed corporations in the United States.”<sup>1</sup> (See **Exhibit 2** for overview of Gannett financials.) USA TODAY represented 11% of Gannett’s overall revenues.

The 1982 launch of USA TODAY was marked by controversy and industry skepticism. Newspaper traditionalists derided the paper for its brevity, color, and style—labeling it “McPaper.” One industry analyst, representing a widely held view, proclaimed, “A national daily newspaper seemed like a way to lose a lot of money in a hurry.”<sup>2</sup> USA TODAY thrived despite its critics. Though it lost hundreds of millions of dollars in its first 10 years, its circulation increased from 362,900 in 1982 to almost 2.3 million in 2000, becoming Gannett’s leading profit center. (See **Exhibit 2** for an overview of USA TODAY’s estimated financials).

USA TODAY was a departure from Gannett’s successful growth strategy. Gannett had pursued a strategy of acquiring undermanaged, family-owned, small to medium-sized papers and then adding value through quality management, cost controls, and labor-saving initiatives. CEO Allen Neuharth, who attained Gannett’s top management spot in 1973, emphasized acquisitions that would help build a nationwide media system, with a base of printing and distribution plants. Neuharth’s 1979 acquisition of Combined Communications, at the time the largest Federal Communications Commission (FCC)-approved media merger, brought Gannett 12 radio stations, 11 advertising companies, 7 television stations, and 2 newspapers.

Further growth, however, was constrained by regulatory obstacles and a scarcity of independent newspapers suitable for acquisition. Gannett already owned the maximum number of television stations allowed by law and one less than the maximum number of radio stations. It could not acquire certain newspapers, such as *The Denver Post*, because Gannett already owned broadcasting stations in these locations.

In February 1980, Neuharth, who had long harbored dreams of creating a national daily newspaper, brought together four young Gannett managers with varied backgrounds to research the feasibility of a national newspaper.<sup>3</sup> One of these “young geniuses”—Curley, a 31-year-old former reporter and editor who was then a researcher at Gannett—was charged with establishing whether there would be demand for a national newspaper.

Curley hired two independent Michigan State University researchers—Michael and Judee Burgoon—who had conducted research in the past for Gannett. The Burgoons’ research, which involved 8,000 in-depth interviews with newspaper readers, indicated that 23% of those surveyed read two newspapers during the week. They concluded, “People will subscribe to a local newspaper and also will buy a newspaper off the newsstand.”<sup>4</sup> Curley had found the research data to support Neuharth’s plans.

USA TODAY became America’s only national general-interest newspaper that delivered news about every state in the union. It combined characteristics of both weekly news magazines and daily newspapers—color advertising and in-depth coverage—as it focused on an audience of “mobile,

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<sup>1</sup>Quoted in “USA TODAY Online,” HBS Case No. 598-133 (Boston: Harvard Business School Publishing, 1998).

<sup>2</sup>Peter Pritchard, *The Making of McPaper: The Inside Story of USA TODAY* (New York: Andrews, McMeel & Parker, 1987), p. 120.

<sup>3</sup>Pritchard, p. 87.

<sup>4</sup>*Ibid.*, p. 95.

interested, intellectual, upscale segments of society. . . .<sup>5</sup> Its distinctive organization, straightforward content, and updated sports scores appealed to millions of readers. Advertisers, however, were initially reluctant to migrate from more traditional media.

USA TODAY generated significant losses in its first few years. Expenses ran far ahead of revenue, as Neuharth spent liberally to secure market share and to create an infrastructure for national distribution and content.<sup>6</sup> By 1988, Gannett's operating losses from USAT were estimated to have exceeded \$400 million. However, in 1993 USAT enjoyed its first year of profitability, making profits of \$7.5 million. In 2001, USAT was estimated to have earned \$100 million.<sup>7</sup>

USAT managers as well as external critics believed that USAT's success was tied to improvements in its news content. Curley suggested that "when the journalism improved the advertising cascaded. It has been the improvement of the product that has brought in advertising."<sup>8</sup> Even critics who had earlier dismissed the paper were impressed with its improved content. David S. Broder, a *Washington Post* columnist, said, "USAT has become a pretty damn good newspaper. They are spending money, and it is making a difference. And they are everywhere." Ben Bagdikian, a media expert who had criticized early editions of the paper as "mediocre piece[s] of journalism," noted in the late 1990s that it "is a very different paper today. . . . It has become a much more serious paper."<sup>9</sup>

USAT's mission to generate timely, accurate, trusted, in-depth news coverage contributed to the improvements in news content. In 1997, USAT managers were continuing to emphasize producing better news. Curley said:

We were trying to combine exceptional coverage of major events with an emphasis on "hard news and enterprise reporting." In the beginning there was a concept that we would be a second paper to the local papers. We don't see it that way anymore. We want to break news. It is now time to move to the next level, to produce news that nobody else has. Early on, we were pretty soft. To an extent we were following TV. Now we're trying to lead TV. A couple of years ago, we were a C plus. I think we've gotten to be a B minus. But we want to be the best newspaper on the planet.

The transition from Neuharth's heavily criticized newspaper to a more widely accepted paper began when Curley took over USAT's newsroom in 1994. Curley, who had been president of USAT since 1986, had gradually taken on responsibility for USAT's four separate divisions: the newsroom (news and editorial), advertising, circulation, and production.<sup>10</sup> In 1986, Curley became president of USAT and was responsible for circulation. By 1991, Curley had added the title of publisher—the top executive position at the paper—and became responsible for advertising, business development, operations, production, IT, and finance. In 1994, Curley's responsibilities expanded to include the newsroom and, in 1995, grew to include USAT's international edition and the Online business.

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<sup>5</sup> *Advertising Age*, July 13, 1982.

<sup>6</sup> Pritchard, p. 95.

<sup>7</sup> "Gannett," Deutsche Banc Alex Brown, October 11, 1999, p. 5.

<sup>8</sup> James McCartney, "USA Today grows up," *American Journalism Review*, September 1997.

<sup>9</sup> *Ibid.*

<sup>10</sup> The newsroom was the seat of power at many newspapers. As head of the newsroom, the publisher tends to have great authority. At USAT, Curley acquired the title "president" in 1986, but it was not until 1995 that he took over the newsroom.

When Curley took over the newsroom, he emphasized “independence, fairness, accuracy, and trust”—the core values of traditional newspapers. “These values,” Curley said, “are the soul of a newspaper.” In the newsroom, these values guided news reporting and led to a fiercely independent culture: “Reporters don’t like to be told what to write about, and that pretty quickly translates into not wanting to be told what to do, period.” As USAT expanded distribution and created other media outlets, the newsroom remained the seat of power and cultural center of USAT.

In one sense, the newsroom culture at USAT was that of a traditional newspaper. USAT newspaper reporters performed diligent research to ensure that their “facts” were facts. An abiding sense of public service also prevailed. In another sense, the newsroom culture was nontraditional. The reporting style—concise stories that seldom jumped a page—and widespread use of graphics were a deliberate effort to write for the USAT reader and not for the Pulitzer committee. Many reporters and editors at the paper had been at USAT since its inception. In the words of one reporter, “Many of us have a great sense of loyalty to the paper; being the nation’s newspaper outcast has created a real sense of family here.”

By early 1999, the newspaper had gained credibility within the nation’s newspaper community. Much of this was due to the leadership of Mazzarella, who took over as editor of USAT in 1994. Mazzarella had encouraged more national and international reporting, and some reporters had earned awards for their reporting work. However, on March 10, 1999, to the surprise of the assembled USAT newsroom staff, Karen Jurgensen, then the 50-year-old editor of the editorial page, was named to replace Mazzarella as editor of USAT.<sup>11</sup> Mazzarella became senior vice president for Strategic Projects.

Shortly after the announcement, Jurgensen addressed the challenges she expected to face in her new role: “We’re facing a world of unbelievably rapid technological growth and change, where the alternatives to newspaper reading are growing so fast we can barely keep up with them. The challenge is to figure out what newspaper to produce in that environment.”<sup>12</sup> Jurgensen, however, already had an idea of what she wanted to do. After Jurgensen officially became editor of USAT on May 1, she spent the first 100 days of her tenure investing the newspaper’s managing editors with the power and responsibility to conduct investigative or “franchise” reporting:

In this age of increasing competition, news outlets will simply appropriate, as their own, virtually any story. If we break a story on our website in the afternoon, any other paper can simply call a source to verify some detail, then they “own” it and report it as their own. We need to put more emphasis on in-depth reporting of issues that we can make into news. It is simply very difficult to distinguish yourself reporting on current events.

## Curley’s Network Strategy

In early 1998, as USA TODAY enjoyed record earnings (see **Exhibit 2**), Curley was worried. He was increasingly concerned that the USAT organization was unprepared to meet the challenges presented by the ongoing revolution in the news industry. In July 1998, Curley took Jurgensen, then editor of USAT’s editorial page, to lunch and asked her to evaluate the digital challenge to the newspaper and to develop a plan to meet it. Jurgensen had started with USAT as a topics editor for USAT’s Life section before USAT had published its first edition, in 1982. For the next nine years,

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<sup>11</sup> Bob Dart, “Leap of faith 17 years ago paid off for editor,” *Variety*, March 25, 1999.

<sup>12</sup> *Ibid.*

Jurgensen earned numerous promotions, becoming special projects editor and then deputy managing editor for the Life section, before becoming managing editor of the former Cover Stories department and then senior special projects editor. In 1991, Jurgensen took over the editorial page. She accepted Curley's request and began evaluating the newspaper's digital operations and processes.

In the fall of 1998, market pressures were wreaking havoc on the news industry's competitive landscape. Curley remarked:

Venture capital funding of the telecom industry and online ventures were creating novel partnerships, organizations, and distribution outlets. Not only were the traditional papers and broadcast media going online, but also unique Internet entities, such as Yahoo, were succeeding without any graphics at all. In addition, the news marketplace was converging: the dominant players were no longer just *The New York Times* and [The] *Wall Street Journal*. NBC joined with Microsoft to create msnbc.com. And CNN created cnn.com and joined with *Sports Illustrated* to create cnn.com. The USAT franchise is heavily built on sports, and people were getting out sports scores faster than us. *The New York Times* and [The] *Washington Post* were passing us, even though we had had the early lead. Hotels, a major source of revenue for us, were considering "digital" news for their guests. I'm trying to get the analog people to buy into a digital strategy, and they're all worried that free news on the Web will eat their lunch.

With USAT's single-copy sales declining and its talent pool jumping to new online-content ventures, Curley observed that yahoo.com and AOL were enjoying enormous month-to-month page-view increases. Meanwhile, the newsroom was doing little to adopt technology or interface with USAT's Online operation. In late 1998, the newsroom still contained only a few personal computers. Reporters and editors had little to do with the Online staff and largely ignored them.

On March 16, 1999, one week after Jurgensen was named as the new editor of the USAT newspaper, Jurgensen presented her findings on the digital challenge to the newspaper at a senior management meeting at Hilton Head Island, South Carolina. Jurgensen's report focused on the newspaper but fell short of calling for a companywide response to the digital challenge. Following is an excerpt:

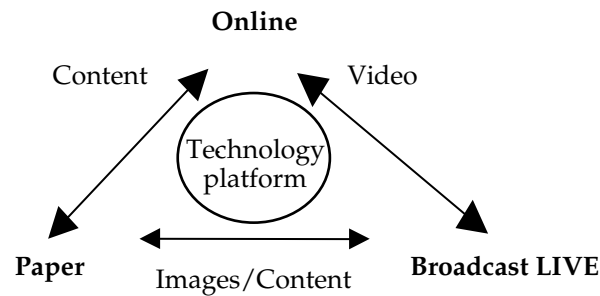
We were ahead of our readers in 1982. They didn't know they needed a national newspaper. I suggest that today we're in danger of letting them get ahead of us because their world is bigger, richer, more complex and more interesting than the one we're delivering. To preserve and extend our value as a place that creates a sense of community for our customers, we should view USA TODAY as a "local paper for the global village." According to this vision, "paper" encompasses both what has traditionally been known as the newspaper and a state of the art website. It suggests a place where I can go to find the information I want, whatever the medium.

We don't know yet where the journalism of the twenty-first century is going, but we should at least focus on establishing a 24-hour news operation with the capability to spin off new, unimagined products. These should be seamless, complementary, and easy for the customer to navigate from one to another—all produced under one USAT roof. . . . Finally, we need to empower the best people to do their best work. This entails pushing responsibility down, respecting all, improving rewards and compensation, maintaining an enormous supply of talented, well-rounded, indoctrinated people.

By the fall of 1999, Curley had refined his vision for the organization, deciding that the new USA TODAY needed to leverage its brand, its news gathering and reporting operation, and the content it generated across multiple distribution channels. USAT spent roughly \$50 million per year on its news

operations around the world, which included 2,000 employees at USAT's Virginia headquarters and at news bureaus in London, Paris, and Hong Kong. This was an investment Curley wanted to leverage through USAT's new \$80 million technology platform, which was set up to transmit and receive various kinds of news content. The revamped company would distribute content among its three major platforms, as Curley articulated them: Online, LIVE, and USAT, the paper. (See **Figure A** below.)

**Figure A**



Source: Company.

Under the banner of this vision—the “network strategy”—content from USAT's core news-gathering operation would be leveraged in multiple ways:

- Utilizing USAT reporting, a television production team would create news content for the 21 Gannett-owned television stations (see **Exhibit 3** for cities where stations were located, audience, and acquisition dates). Curley believed that LIVE could expand the national presence of the USAT brand. LIVE would also develop multimedia content—video and audio clips—for Gannett's TV station websites, as well as for USAT Online.
- The paper would also deliver content to Online, which used “content developers” to repackage and repurpose existing USAT stories.
- LIVE would send digital images to the newspaper and video to Online to expand their multimedia possibilities.

The network strategy promised challenges as well as opportunities. Curley summed up both:

The digital transformation is helping at least part of the marketplace move our way. As geography matters less in media, a national-international player like USAT has powerful growth opportunities. Retail advertising, the mainstay of local media, is up eightfold at USA TODAY in the last four years—the four years since the Net took off. Consolidation in travel and other industries has played to our strength of being able to offer advertisers like Marriott and Starbucks a standard, national product and simplified billing.

The temptation is to milk the current trend, letting USA TODAY.com build a bridge to the e-world while the rest of us continue our daily work of writing and printing on dead trees. After all, we've beaten old-world media for the last many years, and we expect robust growth this year. . . . But the time has come to think beyond our happy sandbox.

## USATODAY.COM

Between 1986 and 1995, the USAT brand name was lent to various Internet projects; the first was a bulletin board service that allowed users to play chess with one another. This evolved into an online sports center that focused on baseball statistics and breaking sports news. By late 1994, this project had evolved into a small organization called the USA TODAY Information Network, which was managed by General Manager Lorraine Cichowski.

A longtime USAT staffer, Cichowski had worked in USAT's Money section from the paper's inception in 1982 until 1991. Between 1991 and 1994, Cichowski had worked under the USAT publisher for new-media projects. In her new role, Cichowski's broad mission was to learn how to bring the USAT brand into new markets via satellite news delivery and online service providers.

Never profitable, the Information Network experiment was an early look at how online news could be produced and how consumers were using it. It was laid to rest in March of 1995. The Online business was launched the following month, on April 17, 1995. With the launch, Curley added Cichowski to his senior management team, promoting her to USAT vice president. Along with the other members of Curley's management group, Cichowski reported directly to Curley.

Originally positioned as a dial-up online newspaper with up-to-the-minute sports statistics, Online was to be a subscription service, charging \$12.95 a month for unlimited access to the online newspaper and three hours of access to the Internet (\$2.50 per hour thereafter). After six weeks, the subscription service was abandoned in favor of an advertising-based revenue model. The search for an appropriate revenue model was not perfunctory. Gannett had no intention of repeating USAT's early development, in which expenses ran far ahead of revenue. Gannett's senior management, of which Curley was a member, wanted Online to be profitable.

Online originated as a "stand-alone" operation that was autonomous and independent of USA TODAY's newsroom operations and culture. Though Online initially emulated certain aspects of the newspaper, such as putting out one daily edition and incorporating the trademark USAT red, white, and blue color scheme, management quickly began a tradition all its own.

### *A Growing Divide*

One month after beginning its free service, Online gave up on trying to publish a daily edition and went to a continuous update format to incorporate breaking news. Cichowski decided to update the site every two minutes, which meant that Online could not rely on USAT for much of its content—the paper published one edition a day, and writers worked to that deadline. Cichowski's decision to reduce Online's dependence on USAT content was supported by market research that indicated that only 15% of USAT readers visited the Internet site.<sup>13</sup> Other online newspapers also shared the view that the audience for Web-based content was different from that for newspapers.

A decision to update the site continuously meant that Online had to rely increasingly on wire services for breaking news and less on the USAT newsroom. The change also signaled a change in work habits for Online's staffers, 85% of whom Cichowski had hired from outside USAT. Said one Online manager, "We had been working very hard to get out one edition a day, and then Lorraine wanted us to put out 600 a day. Daily deadlines became a continuous series of minute-by-minute deadlines." Staff quickly accepted the new emphasis on breaking news. As one graphic designer said,

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<sup>13</sup> "Internet: USA TODAY goes to Bloomberg," *Network Briefing*, March 5, 1998.



“We talked to Microsoft, who said they were going to publish two editions a day, and they thought that was a big deal. We were amused.”

Part of the challenge was that—in the face of very different time pressures—Online was still a steward of the USAT brand: “fairness, accuracy, and trust,” in Curley’s words. Yet, with only 15% of Online’s content drawn from the paper, this was an increasingly difficult standard to live up to. The nature of the work for Online differed significantly from that required in the traditional newspaper business. Online had no reporters but devoted significant effort to packaging, as stories had to be “chunked” into a one-sentence headline, one-paragraph bites, links, and ultimately, the full story. In 1995, the staff numbered 75, including 8 editors.

Larry Sanders, then director of Business Operations for Online, characterized the difference between working for Online and the newspaper:

I was a print journalist with Gannett for 26 years, making editorial decisions in places like El Paso and San Antonio. I was just amazed at how different the job is on the Web. You write a piece and immediately—that very instant—you start to see the clicks as readers go to the story. Compared to that feeling, a USA TODAY print journalist works in a vacuum. On a community newspaper you get feedback by walking down Main Street and hearing folks say “That was great,” or “That stank,” but on the Web you get so much more. It makes for a better news product, faster. It reinforces, or it forces change.<sup>14</sup>

Online’s staff also looked and dressed differently than their newspaper counterparts. They tended to be younger and more casual—sometimes dressing in tee shirts. Physical separation existed as well; Online was located several floors away from their print colleagues in their Rosslyn, Virginia, headquarters building. The differences created more than physical distance between the two groups. When Online staffers were in the elevators, some heard snickers from newsroom staffers regarding their dress. No one from the Online editorial group attended the daily or weekly news meetings of the paper’s newsroom editors—meetings that sorted out which stories were in the pipeline for that day’s paper and for the week ahead. Further, the pressure of constant deadlines and the fact that Online relied on many sources outside USAT meant that—on occasion—accuracy slipped below the paper’s standards. Newsroom staffers worried that Online was putting USAT’s credibility at risk.

Relations with the newsroom began to deteriorate as print reporters became concerned that Online would compete with them for sources, carefully cultivated over months and sometimes years. One USAT reporter had a relationship with several important political figures and wanted to be one of “three reporters” whom these officials would call back in a breaking news situation. But the reporter wondered—if more than one person called from USAT, would the source still return *her* calls? Online staff requested that a USAT reporter file a story about Woodstock II (a reprise of the famous rock festival). After consulting with his editor, the reporter declined the offer, citing workload and time constraints. A local Gannett paper in upstate New York, however, was more than happy to oblige Online with a story.

Another source of tension between Online and the paper revolved around an emotional issue that came to be termed “When is news news?” In the words of one reporter:

Our paper goes to bed at 9 at night and comes out at 6 the next morning, and other papers are pretty similar. What happens when we get a scoop on a story at 2 in the afternoon? The Web folks want it to put up on their site. But, the guys in *The Washington Post* newsroom look at our website every five minutes, just like we look at theirs. It goes up on our site, they call

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<sup>14</sup> Ibid.

their sources and confirm, imprint it with their angle, and it's on their front page the next morning, same as ours. Why help somebody else sell papers when we have a scoop?

In general, the print side was concerned that online media in general would soon spell the doom of newspapers. Heightening competition among newspapers was merely one of many apparent threats. Another threat was that classified advertising would migrate from the newspapers to the online space, undermining the economic foundation of the newspaper business.

Despite its independence from USAT, Online remained a USAT news organization and was bound to its fundamental news values: accuracy, trust, and timeliness. The proliferation of Web-based, specialized content providers unrestricted by newspaper principles, however, challenged Online's news practices. Content providers such as the National Basketball Association (NBA) and the National Football League (NFL) raised "church and state issues," said one manager. For example, the NBA began selling the rights to customized Web content, including select audio and video clips, to one of Online's competitors, [www.cbssportsline.com](http://www.cbssportsline.com). It was standard news practice at USAT, however, to avoid paying for news content. Online decided to continue its practice of sourcing rather than buying news content. Online's management also decided against cobranding with [NFL.com](http://NFL.com) because it would compromise the integrity of information about the National Football League.

Online attached high priority to running its own website and operations.<sup>15</sup> "We want the technological competitive advantage that comes from using state of the art in Internet publishing methods. And we want to be our own laboratory for rapid new-product development,"<sup>16</sup> said Cichowski. Online staff recalled: "She wanted a different culture. She wanted it to be more dynamic than the paper." Another added, "There was almost a sense of 'watch what we can do without you [the paper].' We felt like the paper people thought we were a joke, so this didn't help matters." By hosting the site on its own servers, the organization could respond immediately to surges in demand. For example, during the 1999 NCAA basketball finals, the volume of daily site visits jumped significantly, and the organization was able to accommodate the higher volumes by quickly adding server capacity.<sup>17</sup>

During the summer of 1998, Online's staff morale reached a low point, as Cichowski's relationship with Curley's senior staff deteriorated. Staff retention became a significant problem. Online's technology infrastructure was falling behind that of its competitors, such as [WSJ.com](http://WSJ.com). Content was not as up-to-date as competitors'. Frequent redesigns of the website perpetuated design flaws and left the team frustrated and confused over the direction of the site. Was it going to be a portal or a destination site? As a portal, could it compete with Yahoo? As a destination site, would it have to rely too much on the newspaper? Website traffic figures—and resulting market values—started to favor becoming a portal.

Although morale was down, revenue was up. Beginning in 1996 and continuing through 1997, Online had enjoyed double-digit growth in sales. In September 1998, Online turned a profit, the only newspaper-owned online news site to do so at the time. Though Gannett trumpeted this fact, Gannett's continued emphasis on profitability restricted Cichowski's ability to invest in technology or dramatically increase staffing.

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<sup>15</sup> "USA TODAY Online," HBS Case No. 598-133.

<sup>16</sup> *Ibid.*

<sup>17</sup> *Ibid.*

## Integrating Online: Implementing the Network Strategy

During the fall of 1998, Curley looked for ways to integrate Online with the newspaper. His first steps were to change senior management staff outside of Online: he replaced the retiring vice president of human resources with someone who would be sensitive to the impending cultural changes and began to groom Jurgensen for her new role as editor of the newspaper. Curley had already realized that his newspaper's readers were looking to the Internet for their news, and he knew that success in the evolving news marketplace required that he leverage all of USAT's assets.

Online's troubled relationship with the rest of the business required a more subtle tack. After all, Cichowski had been with the paper since its start. She knew more about the Internet than anyone else at USAT, including Curley. So, Curley discussed the need for greater integration with his senior team, leaving it to them to collaborate on steps that would enhance integration between the paper and Online. By February 2000, Curley's senior staff politely acknowledged that more integration was needed, but, as Curley explained:

Each person was hoping that he or she could continue with the status quo and that the next person would take the lead on this issue. Everyone saw the fact that the newsroom did not support Online. My senior staff was happy to ignore Online and had a "not on my watch" attitude, which meant that they were unwilling to let Online create more work for them, especially since Online's growth appeared to them to challenge the status and viability of the paper. No one was willing to put his or her credibility on the line to push the network strategy.

### *Integration Issues*

In addition to workload considerations, senior managers faced integration issues that had operational and technical dimensions. According to Curley:

Integrating Online with the print newspaper required that each retain a certain measure of independence due to their distinctive demands. Yet, such independence needed to be balanced with mutual support. Though it was tempting to do more original reporting, it should not be done where the paper had expertise. The biggest challenge was that the online user expected a more in-depth story from Online than from the newspaper. If Online were unable to meet this expectation, then ultimately the audience would be lost.

Simultaneously producing news content for both Online and the paper was a significant challenge. Curley considered increasing Online staffing to source original material for the website, but he recognized that this expensive investment would be risky in terms of heightening internal competition for sources and in terms of its financial cost. "We could not, in good conscience, use the company's cash flow to fund a massive investment in reporting capacity for the dot-com business. We had to learn to leverage the newsroom."

A study conducted by USWEB/CKS, an agency that was hired to position Online in the digital marketplace, found that too much separation existed between Online and the rest of USAT. The agency discovered that Online had held a mistaken picture of its audience; 50% of USAT readers, not the previously believed 10%, also visited USA TODAY.com. The research implied that Online's look and feel—as well as the content—should be more similar to that of the newspaper. However, Online's management was unable to revise its strategy in light of this information, as its attention was consumed with rising staff turnover driven by the continued Internet frenzy.

As Curley considered the relationship among USAT's various operations, he drew a powerful lesson from the company's international experience:

Up until 1995, international was a separate division that reported to the president of Gannett, International. In 1995, we integrated this edition into our Virginia newsroom and started to think of it as an "early" first edition of the U.S. paper. We did all the editing and layout work in the U.S. and beamed the pages by satellite to printing plants in Europe and Asia. I saw the power of integrating and leveraging our newsroom and of the efficiencies that resulted.

## The Fate of Online

In 1999, Cichowski became convinced that USA TODAY should spin off the Online business unit. Other old-media companies were spinning off their online businesses. NBC had spun off nbc.com, and *The New York Times* had announced that it was seriously considering spinning off its nytimes.com subsidiary. Online's main competition had changed from broadcast sites to portals such as yahoo.com and iwon.com, which were gaining audiences in record numbers. Spinning off the company might also diminish the rate of staff turnover. As one manager said: "Whatever we would pay a new hire, *The Washington Post* would double. And then AOL would double the *Post's* offer. What do we tell people interested in working for Online, which was offering no IPO possibility and no stock options? We had to compete with the 'everyone is getting rich but me' mentality."

Managerial attitudes toward Online were perhaps even more significant factors in Cichowski's perspective. Former USAT editor Mazzarella had openly voiced skepticism about efforts to combine Online with the newspaper. Curley remarked, "Mazzarella was passive about the antagonism between Online and the newsroom, when we needed him to be more supportive of change." For Cichowski, it was difficult to gauge whether the recent emphasis on integration was temporary or more permanent. In addition, Gannett's emphasis on Online's profitability contrasted sharply with the Online view that profitability was death—a sign to the market that they were not investing enough in growing the business.

In February 1999, Cichowski was promoted to senior vice president and general manager of Online. The following month, at the same senior management meeting where Jurgensen made the case for greater unity, Cichowski made the case for spinning off Online, arguing that it would increase Gannett shareholder value, solve recruitment and retention issues, and obtain cash and equity for audience acquisition. She concluded: "We [Online] are dead unless we spin off."

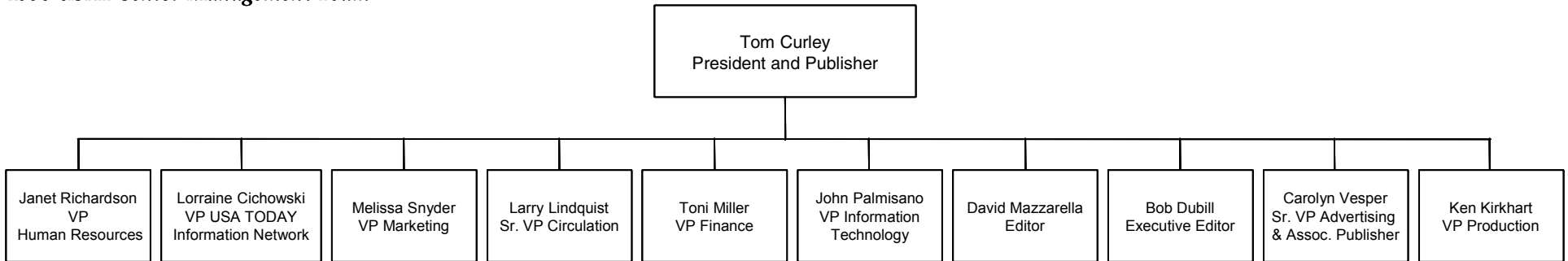
Heading into spring 2000, Cichowski continued to develop Online as an independent business unit. In her view, Online needed to emphasize breaking news, prioritizing the use of wire services news over USAT content. As one of her staffers noted, "She believed that the objective was around instant news, and that speed and scoop were the comparative advantages of the Internet." As part of her emphasis on breaking news, Cichowski sought to hire a wire service bureau chief for the Online editor position. In the face of these issues, however, Online remained profitable. In January 2000, Online made nearly \$800,000 for the month.

\* \* \* \* \*

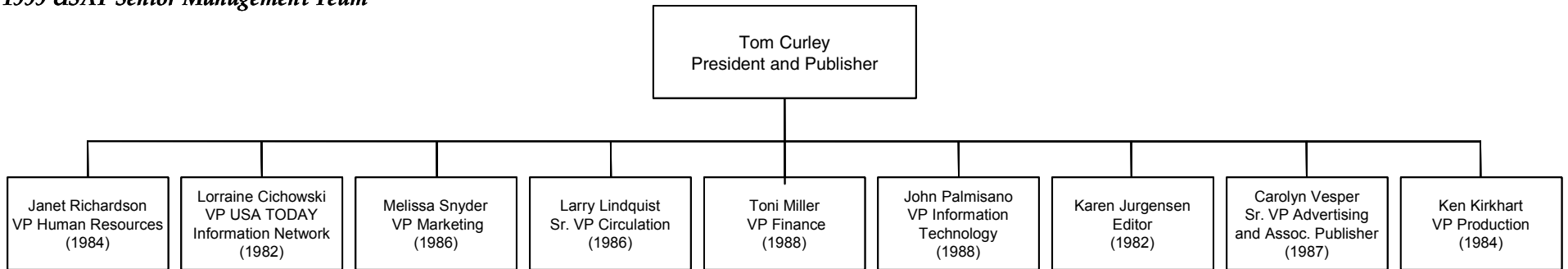
Curley and his entire team were distraught by the continuing debate over the spin-off question. Curley's history of dealing with USAT's disparate lines of operation had led him to believe that "separateness equals death." However, Cichowski was deeply committed and passionate about the need for a spinout of Online. And, despite his efforts to communicate the digital strategy and the potential of integration to his senior staff, they were not moving forward with integration. Given his commitment to the digital strategy and the potential benefits of integration, Curley continued to focus his energies on trying to develop an effective approach to reorganizing USAT. Curley wondered, "How do I create more impetus for change?"

Exhibit 1 USA TODAY Senior Management Team, 1998–1999

**1998 USAT Senior Management Team**



**1999 USAT Senior Management Team<sup>a</sup>**



Source: Company document.

<sup>a</sup>Figure in parenthesis = year joined USAT.

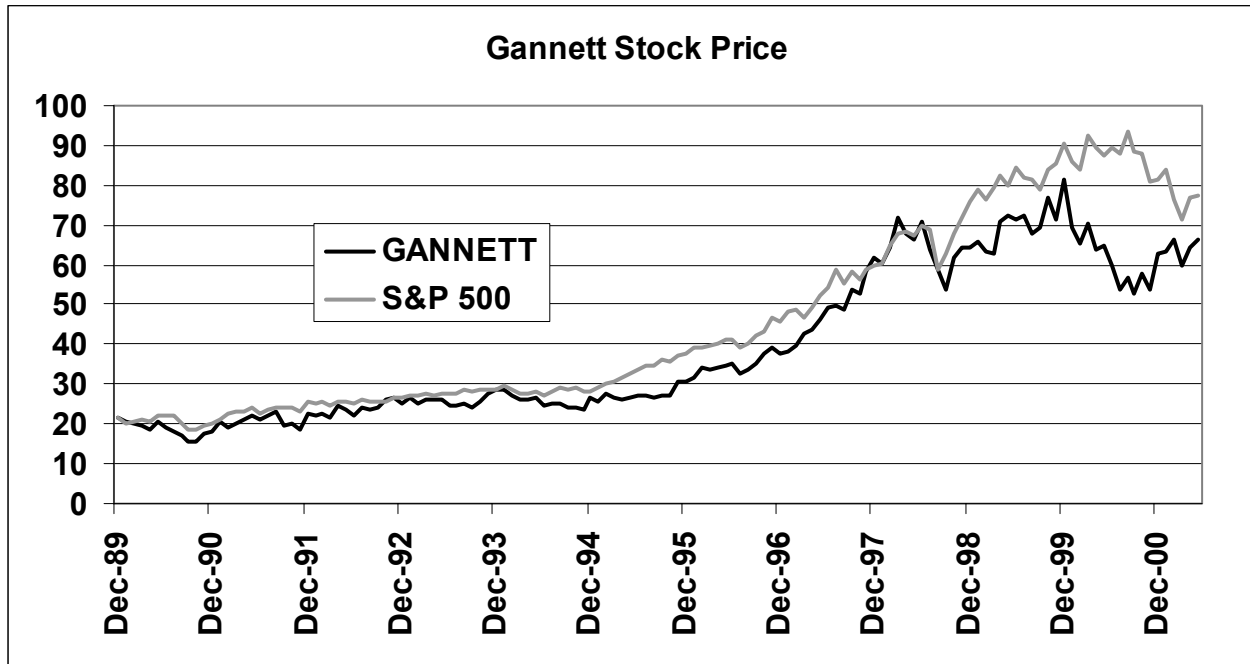
## Exhibit 2 Financial Overview of Gannett (\$ in millions)

	1997	1998	1999 (E)	2000(E)	% Change 98/97	% Change 99E/98	% Change 00E/99E
<b>REVENUES</b>							
Newspaper: Advertising	\$2,343	\$2,601	\$2,731	\$2,830	11.0%	5.0%	3.6%
Circulation	741	790	780	785	6.6	-1.3	0.6
USA TODAY: Advertising	291	342	390	440	17.5	14.0	12.8
Circulation	207	220	228	233	6.2	3.6	2.0
Other	188	206	371	729	9.5	79.8	96.5
Total Newspaper	\$3,771	\$4,159	\$4,499	\$5,016	10.3%	8.2%	11.5%
Broadcasting	704	721	721	779	2.5%	0.0	8.0
Cable	210	233	258	--	10.7	11.1	
Security	45	8	--	--			
Total Revenues	\$4,729	\$5,121	\$5,478	\$5,795	8.3%	7.0%	5.8%
<b>OPERATING PROFIT</b>							
Total newspaper	\$1,002	\$1,109	\$1,283	\$1,452	10.7%	15.7%	13.2%
<i>Newspapers and other</i>	936	1,027	1,180	1,342	9.8	14.9	13.7
<i>USA TODAY</i>	66	82	103	110	24.0	25.6	6.8
Broadcasting	328	344	332	370	4.6	-3.4	11.5
Cable	48	56	65	0	17.0	16.3	
Security	6	2	0	0			
Corporate expenses	(68)	(67)	(67)	(70)	-1.6	-0.2	4.8
Total Operating Profits	\$1,316	\$1,444	\$1,614	\$1,752	9.7%	11.8%	8.6%
<i>Margin</i>	27.8%	28.2%	29.5%	30.2%			
Interest expense	(98)	(79)	(81)	(43)			
Other	(9)	(1)	6	0			
Pretax income	1,209	1,363	1,539	1,709	12.7%	12.9%	11.1%
Taxes	(496)	(547)	(614)	(682)			
<i>Tax rate</i>	41.5%	40.1%	39.9%	39.6%			
Net income	\$713	\$816	\$925	\$1,027	14.5%	13.3%	11.1%
<b>Earnings per Share</b>	<b>\$2.50</b>	<b>\$2.86</b>	<b>\$3.28</b>	<b>\$3.68</b>	<b>14.5%</b>	<b>14.8%</b>	<b>12.2%</b>
Diluted Shares Outstanding (millions)	285.6	285.7	281.9	279.0			
D&A per Share	1.05	1.09	1.18	1.08			
<b>After-tax Cash Flow per Share</b>	<b>\$3.55</b>	<b>\$3.94</b>	<b>\$4.46</b>	<b>\$4.76</b>	<b>11.1%</b>	<b>13.2%</b>	<b>6.8%</b>
Capital Expenditures	221	244	260	210			
Capital Expenditures per Share	0.77	0.85	0.92	0.75			
<b>Free Cash Flow per Share</b>	<b>\$2.77</b>	<b>3.09</b>	<b>\$3.54</b>	<b>\$4.01</b>	<b>11.3%</b>	<b>14.6%</b>	<b>13.3%</b>
<b>EBITDA</b>	<b>\$1,617</b>	<b>\$1,754</b>	<b>\$1,947</b>	<b>\$2,054</b>	<b>8.4%</b>	<b>11.0%</b>	<b>5.5%</b>

Source: Adapted from Steven Barlow and Sean P. Murphy, Credit Suisse First Boston equity research report, April 19, 1999, and Gannett Annual Report, 2000.

E = Estimated.

Exhibit 2 (continued)



Source: Thomson Financial Datastream. ALL RIGHTS RESERVED.



Exhibit 2 (continued) USA TODAY Financial History (estimated)<sup>a</sup>

Year Ended	Year-end Circulation	Revenues			Operating Costs	Operating Income		Per Share Contribution
		Advertising	Circulation	Total		Total	Margin	
1983 <sup>b</sup>	1.33	\$15	\$34	\$49	\$169	(\$120.0)	-244.9%	(\$0.03)
1984	1.24	40	75	115	230	(115.0)	-100.0	(0.08)
1985	1.35	65	105	170	268	(98.0)	-57.6	(0.10)
1986	1.46	90	135	225	295	(70.0)	-31.1	(0.09)
1987	1.60	125	145	270	285	(15.0)	-5.6	(0.03)
1988	1.66	140	149	289	309	(20.0)	-6.9	(0.04)
1989	1.76	157	158	316	320	(3.8)	-1.2	(0.01)
1990	1.83	159	166	325	330	(5.2)	-1.6	(0.01)
1991	1.81	153	170	323	344	(21.0)	-6.5	(0.02)
1992	1.92	160	176	336	347	(11.4)	-3.4	(0.02)
1993	1.97	175	179	354	347	7.5	2.1	0.02
1994	2.01	187	181	368	357	11.2	3.0	0.02
1995	2.07	200	186	387	378	8.3	2.1	0.02
1996	2.16	260	194	454	419	35.1	7.7	0.07
1997	2.23	291	207	499	439	50.1	10.2	0.10
1998	2.28	342	220	562	467	63.8	12.0	0.13
1999E	2.32	390	228	618	499	85.2	14.6	0.18
2000E	2.37	440	233	673	529	98.0	15.6	0.21

Source: Casewriter compilation based upon "Gannett," Deutsche Banc Alex Brown, October 11, 1999, p. 5; and Steven Barlow and Sean P. Murphy, Credit Suisse First Boston equity research report, April 19, 1999.

Notes: Operating income is before taxes; per share figures are after taxes.  
USA TODAY began publication on September 15, 1982.  
All dollar amounts in millions.

<sup>a</sup>Gannett does not report USA TODAY finances. These estimates are compiled from investment bank equity research reports.

<sup>b</sup>Average annual circulation beginning in 1993.

## Exhibit 3 Gannett Broadcast Stations

State	City	Station	Weekly Channel/Network	Joined Audience <sup>a</sup>	Founded	Gannett
Arizona	Flagstaff	KNAZ-TV	Channel 2/NBC	b	1970	1997
	Kingman	KMOH-TV	Channel 6/NBC	b	1988	1997
	Phoenix	KPNX-TV	Channel 12/NBC	1,209,000	1953	1979
Arkansas	Little Rock	KTHV-TV	Channel 11/CBS	377,000	1955	1994
California	Sacramento	KXTV-TV	Channel 10/ABC	1,039,000	1955	1999
Colorado	Denver	KUSA-TV	Channel 9/NBC	1,235,000	1952	1979
DC	Washington	WUSA-TV	Channel 9/CBS	1,857,000	1949	1986
Florida	Jacksonville	WJXX-TV	Channel 25/ABC	388,000	1989	2000
		WTLV-TV	Channel 12/NBC	459,000	1957	1988
	Tampa-St. Petersburg	WTSP-TV	Channel 10/CBS	1,212,000	1965	1996
Georgia	Atlanta	WXIA-TV	Channel 11/NBC	1,578,000	1948	1979
	Macon	WMAZ-TV	Channel 13/CBS	208,000	1953	1995
Maine	Bangor	WLBZ-TV	Channel 2/NBC	123,000	1954	1998
	Portland	WCSH-TV	Channel 6/NBC	334,000	1953	1998
Michigan	Grand Rapids	WZZM-TV	Channel 13/ABC	394,000	1962	1997
Minnesota	Minneapolis-St. Paul	KARE-TV	Channel 11/NBC	1,354,000	1953	1983
Missouri	St. Louis	KSDK-TV	Channel 5/NBC	1,086,000	1947	1995
New York	Buffalo	WGRZ-TV	Channel 2/NBC	503,000	1954	1997
North Carolina	Greensboro	WFMY-TV	Channel 2/CBS	545,000	1949	1988
Ohio	Cleveland	WKYC-TV	Channel 3/NBC	1,399,000	1948	1995
South Carolina	Columbia	WLTX-TV	Channel 19/CBS	245,000	1953	1998
Tennessee	Knoxville	WBIR-TV	Channel 10/NBC	434,000	1956	1995

Source: GANNETT CO INC—10-K, Primark Global Access, December 2000, accessed April 4, 2000.

<sup>a</sup>Weekly audience is number of TV households reached, according to the November 2000 Nielsen book.

<sup>b</sup>Audience numbers fall below minimum reporting standards.